

Virginia Retirement System

Presentation to the
Joint Legislative Audit and Review Commission

July 9, 2001

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Year in Review

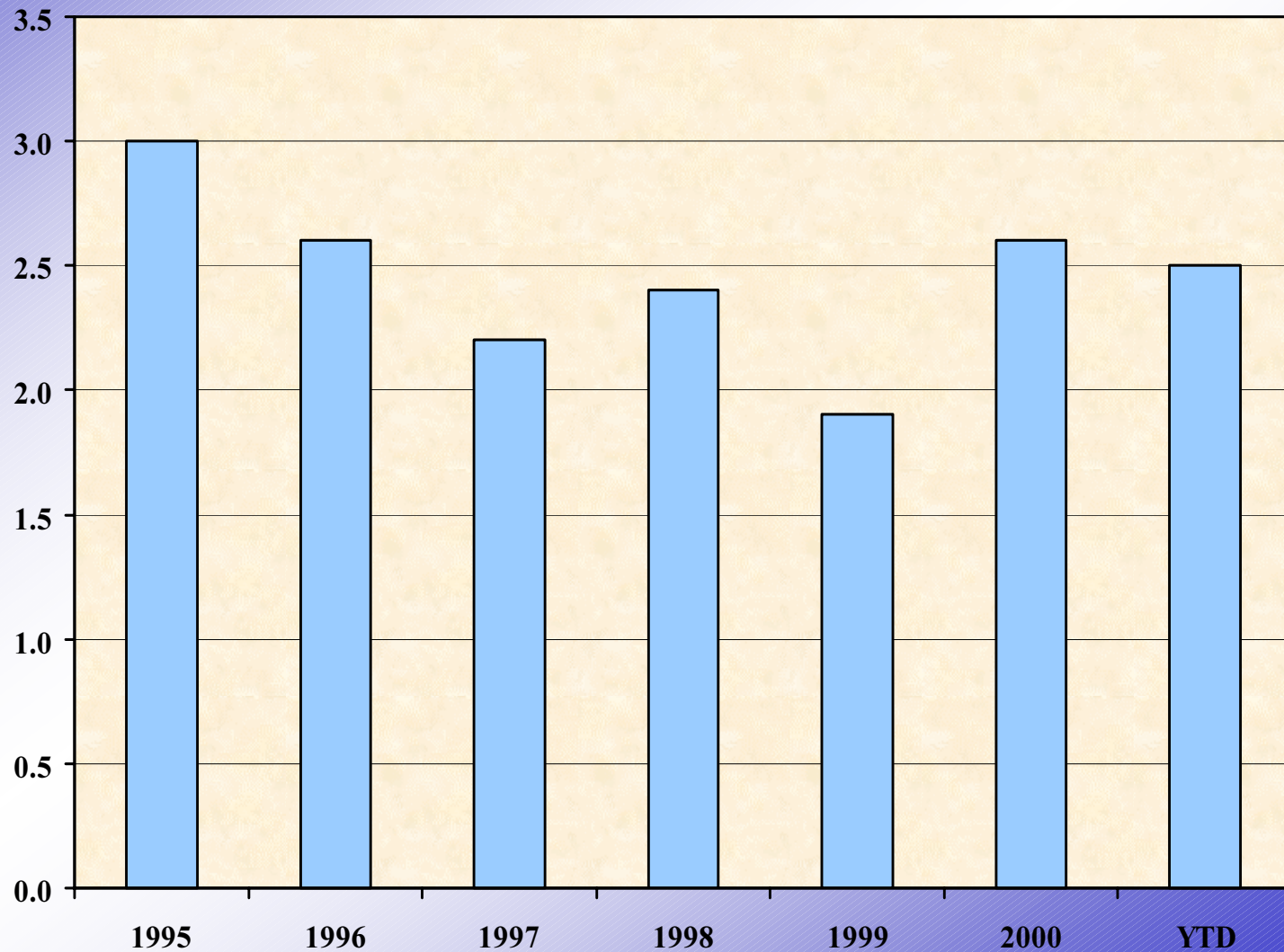
- **Market Perspective**
- **Asset Allocation**
- **Private Equity**
- **Performance**

Market Perspective

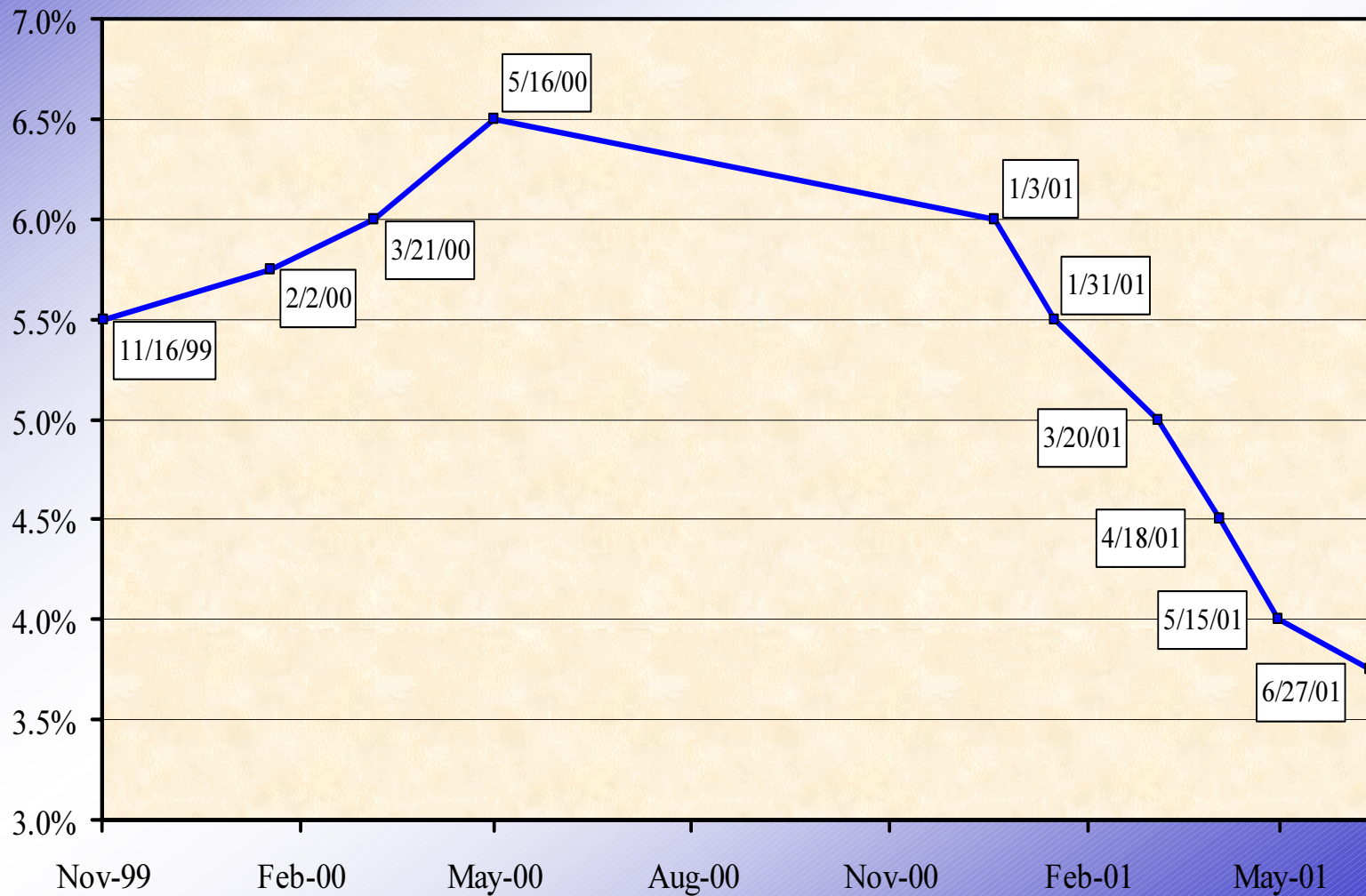
- Benign Inflation
- Falling Interest Rates
- Slowing Economy
- Falling Equity Market
- Strong Fixed Income Market

Core Consumer Price Index

(Percentage Increases)

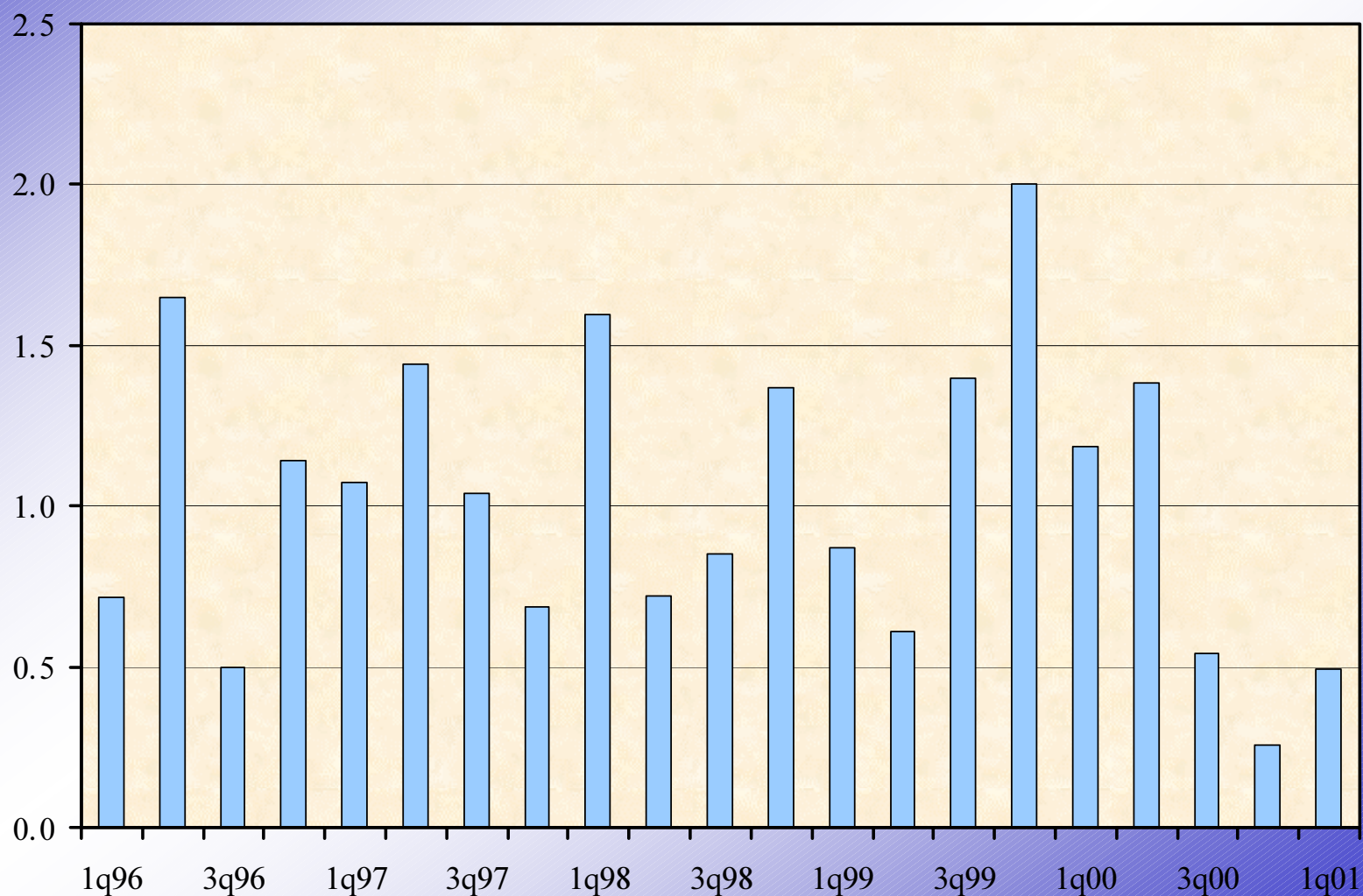


Federal Funds Rate



Real Gross Domestic Product

(Percentage Increases)

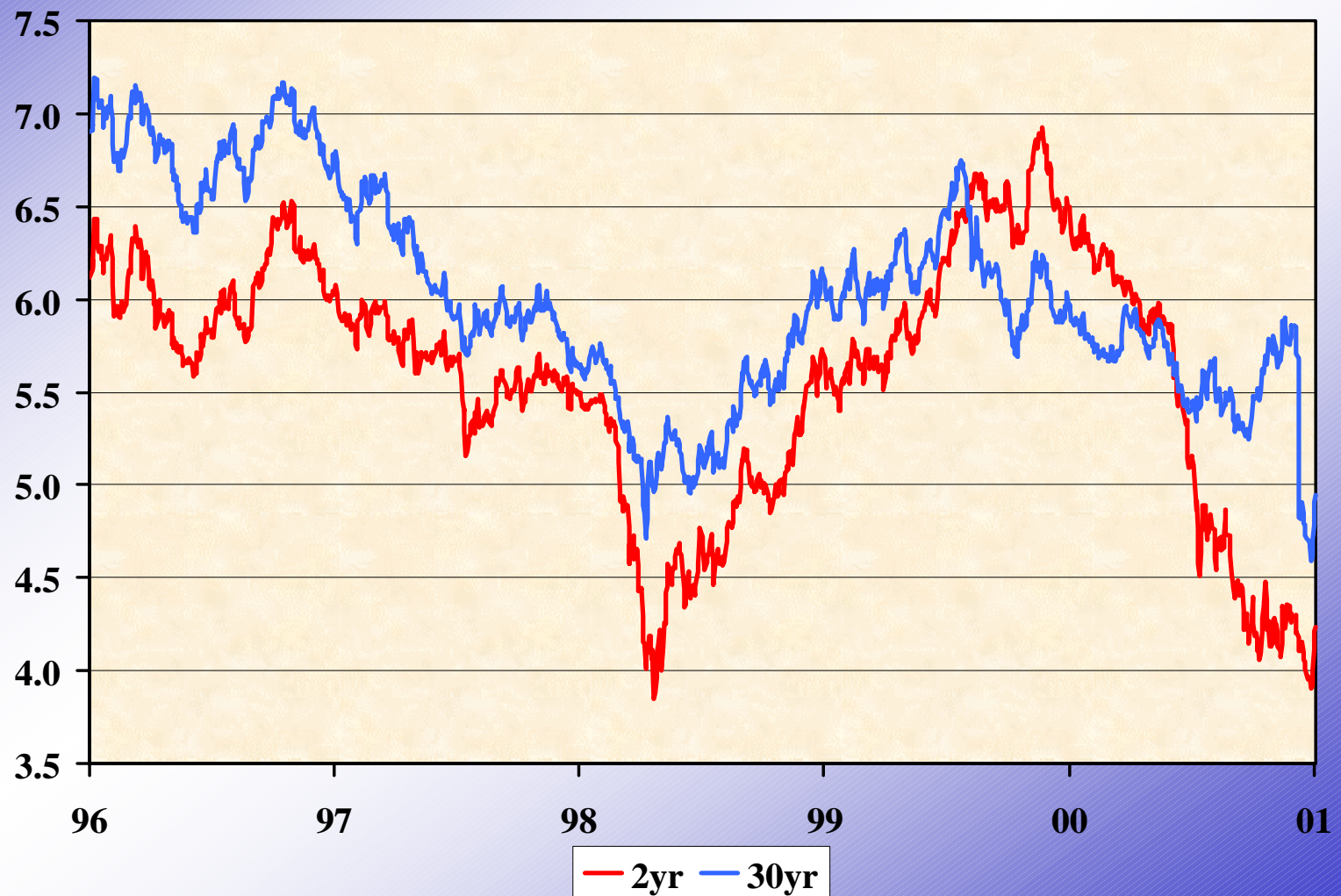


U.S. Equity Market

1999 – Present



U.S. Treasury Yields



Year In Review

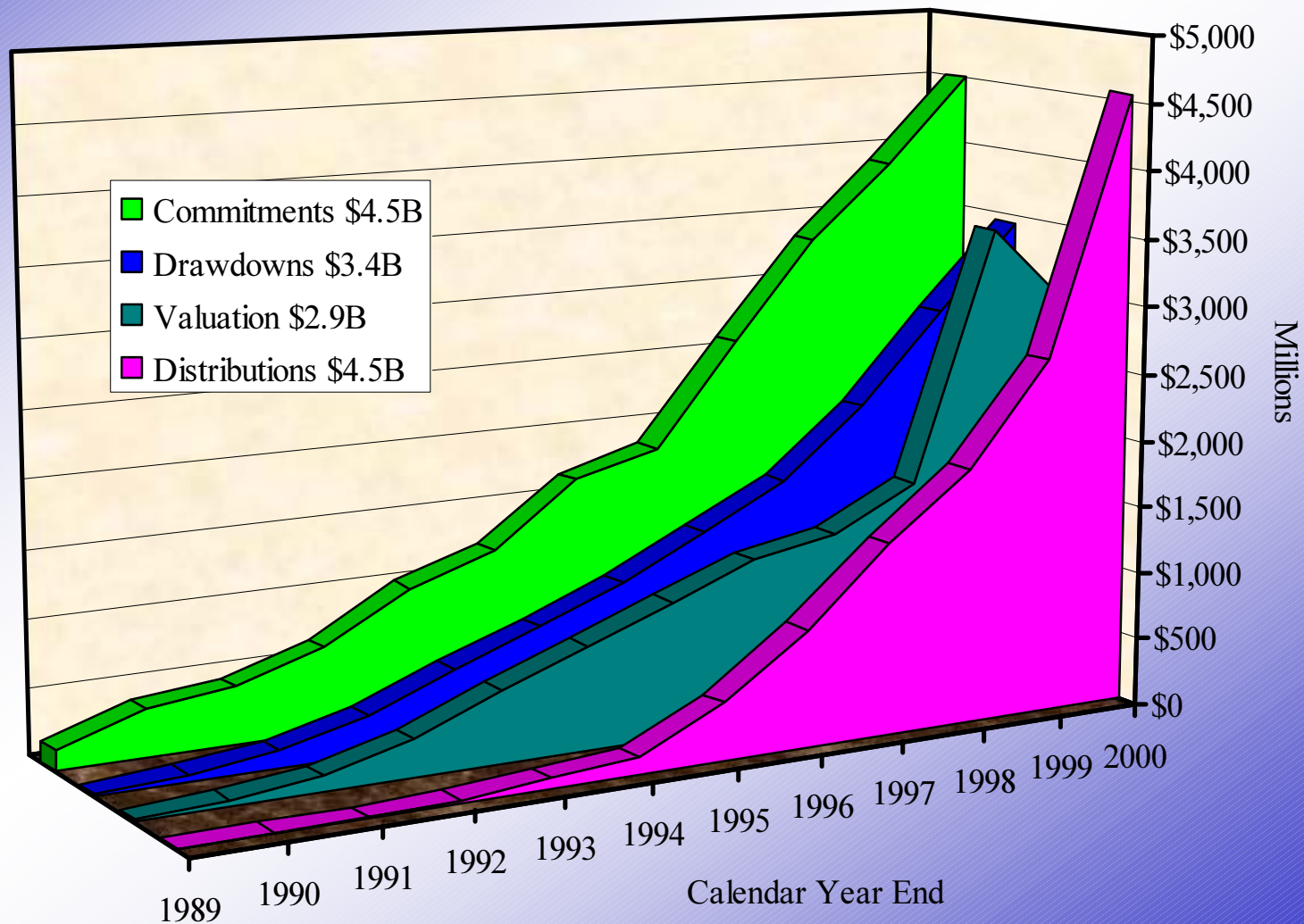
- June – Board Retreat
- September – Non-US Equity
- November – Private Equity
- December – Asset Allocation
- February – Fixed Income
- March – Real Estate
- May – Domestic Equity
- June – Board Retreat

Private Equity

- Program began in 1989
- Opportunistic
- One year return – June 2000: 148.7%
- One year return – June 2001: -15.4%*
- Five year return – June 2001: over 30%*

* *draft - unaudited*

Growth of the Private Equity Program



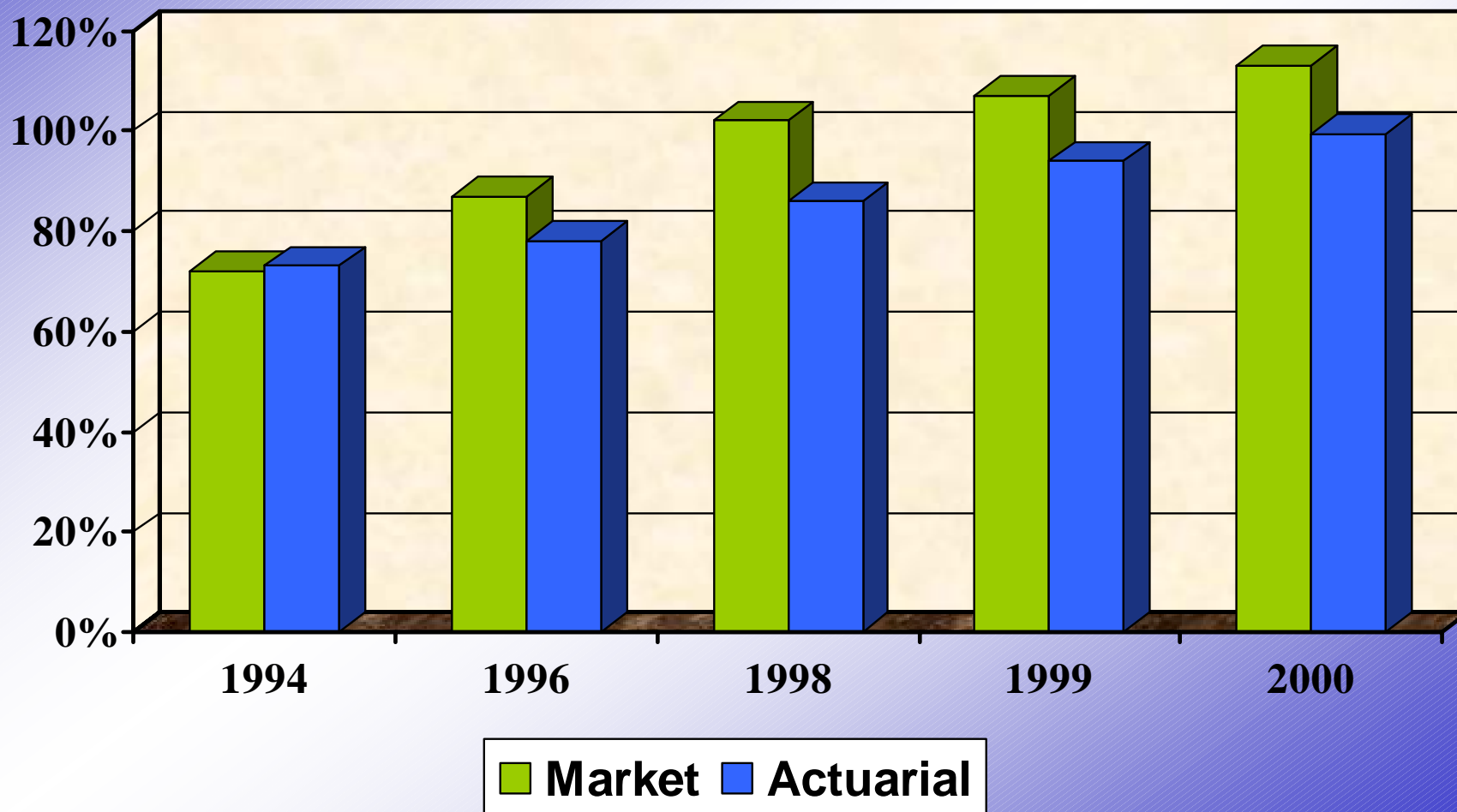
Asset Allocation

- **Asset Allocation Policies**
 - Every 4 years
 - Risk defined as volatility of assets, funded status and contribution rate

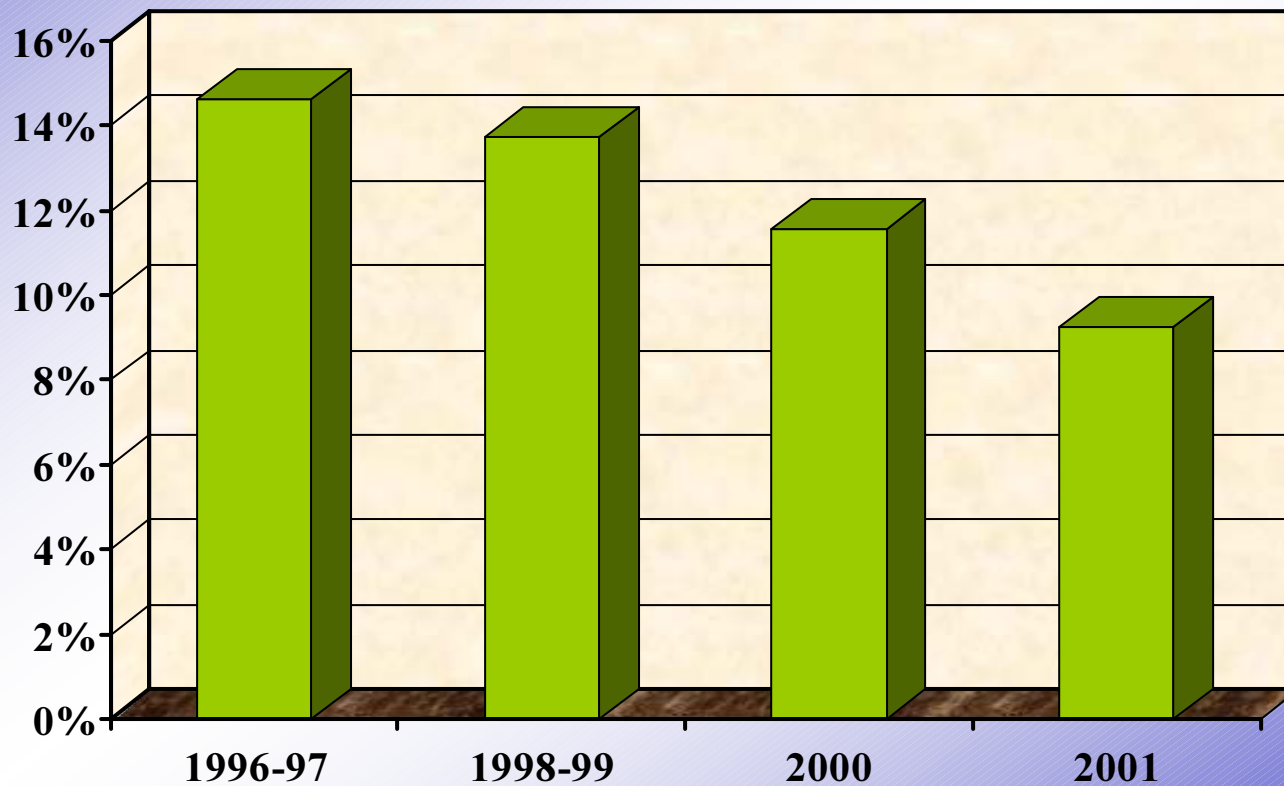
Asset Allocation

- **Process**
 - **Asset/Liability Analysis**
 - How much risk as defined by a combination of stocks and bonds
 - **Mean/Variance Analysis**
 - How to structure a portfolio to achieve maximum expected return for the amount of risk deemed appropriate
 - **VRS assumptions**

Funding Status



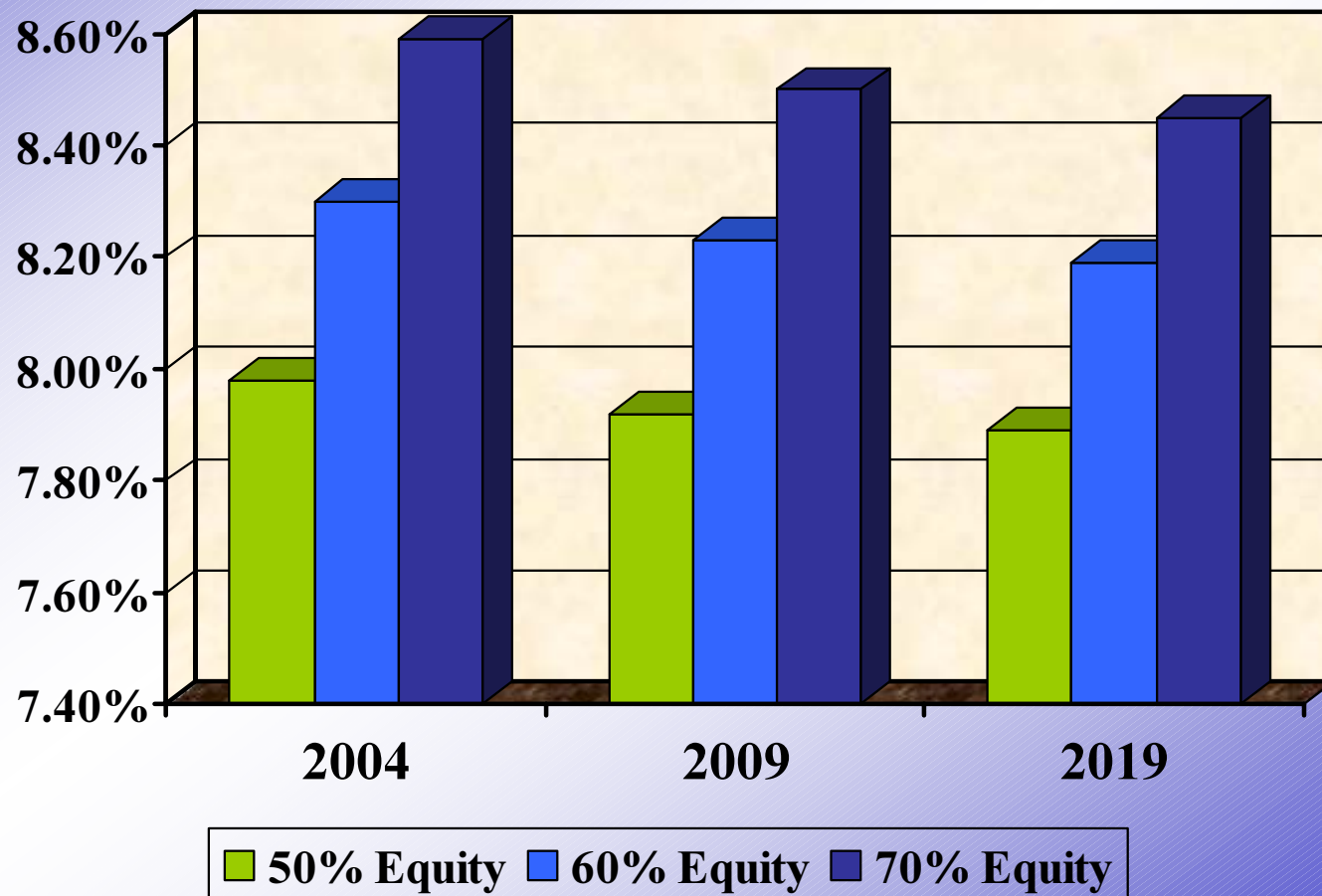
Contribution Rates



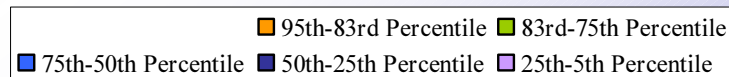
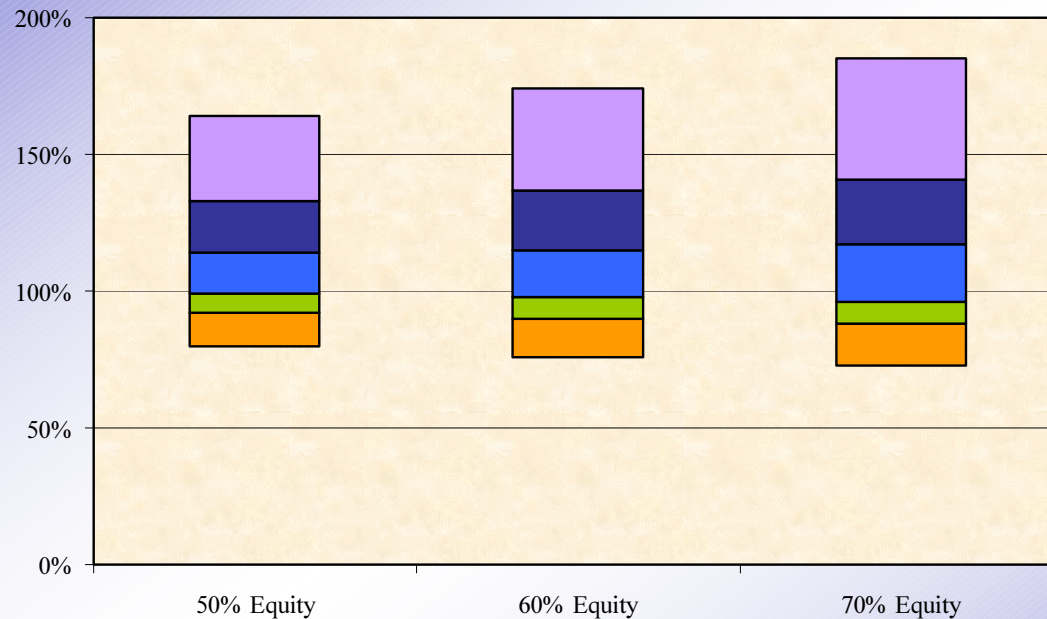
Asset Allocation Analysis

- Consider effect on VRS of changing the equity/fixed income ratio from 70/30 to 50/50 over 5, 10, and 20 years
- Policy objectives to consider are funded status, contribution rates, and return expectations

Annualized Compound Return - Mean



Funded Ratio Aggregate - 2004



Percentile	50% Equity	60% Equity	70% Equity
5th	164%	174%	185%
25th	133%	137%	141%
50th	114%	115%	117%
75th	99%	98%	96%
83rd	92%	90%	88%
95th	80%	76%	73%

VRS Asset Allocation

1994

- 45% US Equity
- 10% Non-US Equity
- 27% Global Fixed Inc
- 6% Private Equity
- 9% Real Estate
- 3% Managed Futures

2001

- 48.5% US Equity
- 15% Non-US Equity
- 25% Fixed Inc
- 7% Private Equity
- 4.5% Real Estate

Performance (5/01)

	<u>VRS</u>	<u>Benchmark</u>
10 YR	11.6 %	11.3 %
5 YR	12.1 %	11.0 %
3 YR	7.5 %	6.4 %
1 YR	-1.3 %	-3.5 %
FYTD	-5.8 %	-6.2 %